

ASX & Media Release

Solimar Energy Limited

Quarterly Activities Report and Appendix 5B

For the 3 months ended 31 December 2013



COMPANY OVERVIEW*

| | |
|--|------------------------|
| ASX / TSXV Codes | SXS (ASX) / SXS (TSXV) |
| Share Price (ASX) | A\$0.05 per share |
| Shares on Issue | 47,872,443 |
| Unlisted Options | 6,635,097 |
| Market Capitalization | A\$2.4m |
| Average Stock Turnover** | 3.55m shares/month |
| * Figures as at 30 January 2014 | |
| ** Over 12 month period Jan 2013-Dec 2013 on ASX | |

DIRECTORS

| | |
|-----------------------------|--|
| Mr Frank Petruzzelli | Chairman |
| Mr Jason Bednar | Non-Executive Director |
| Mr Mark Elliott | Non-Executive Director |
| Dr Charle Gamba | Non-Executive Director |
| Mr Will Satterfield | Non-Executive Director |
| Natural Gas Price* | US\$/MMBtu (SoCal Border Spot) \$5.32 |
| Oil Price* | US\$/bbl (Midway Sunset Spot) \$100.54 |

HIGHLIGHTS

Kreyenhagen

- A non-binding agreement was reached with the JV Partner towards the end of the quarter that would enable a testing program to be finalized.
- The Company was in discussions with a third party to fund the drilling of a third well which would complete the original Phase I of the program.

Funding / Capital

- The February Debentures (C\$2.8m) matured and were repaid on 31 December 2013 along with the remaining interest through the issue of 24,529,905 shares.
- The Company consolidated its share capital issuing one new share for every 25 existing shares. Approved by shareholders the consolidation became effective on 19 December 2013.

OPERATING ACTIVITIES

Overview

The Company continued in the December quarter managing the first phase of the joint venture program at Kreyenhagen. The predominant focus was on reaching agreement with the joint venture partner on an appropriate testing program for the two wells that had been drilled the results of which would assist the joint venture in determining the project's commerciality.

The Company as reported at the end of the September quarter had been able to secure further funds primarily through a non-brokered private placement for C\$500,000.

The Company's focus remains on undertaking the testing program and drilling a further well to conclude Phase I of the Kreyenhagen work program. The result of these activities is hoped to establish if the project as envisaged would be commercial.

Field appraisal and exploration

Kreyenhagen: 85% -100% Working Interest and Operator (San Joaquin Basin)

The Company during the December quarter was in discussion with its joint venture partner ("JV Partner") to agree the next steps with a proposed testing program on 2-33 and 8-33.

On 23 December the Company announced it had signed a Letter of Intent ("LOI") with its JV Partner that while non-binding contemplated the following amendments to the original agreement in May 2013.

- A testing program in respect of the two wells drilled (2-33, 8-33) has been agreed by both parties and the cash call in respect of that program has been issued by Solimar to its JV Partner.
- The JV Partner will agree to pay cash calls for future approved AFE's in respect of any additional work required as a result of accelerating the testing program on wells 2-33 and 8-33.
- The JV Partner will not drill any further wells under Phase I of the work program.
- The JV Partner's 15% working interest in the Heavy Oil lease will be reduced proportionately for that amount under the original USD\$2m commitment to Phase I that had been contemplated in the Farmout Agreement.
- The JV Partner will not earn any interest in the Shale leases.
- The JV Partner will not participate in the Phase II program and will forego any rights that it would have been entitled to, as contemplated in the Farmout Agreement, to increase its working interest in the project in Phase II.

The Company was also in addition to the testing program planning to drill and core a vertical well in the first quarter of calendar 2014. The Company was in advanced discussions with a third party to fund the drilling and coring of this well which would complete the original Phase I program.

During the quarter a small amount of oil was sold from the 4-33 well which was a combination of oil in the tank that remained from earlier production along with the result of a small outflow as a result of testing. The well is currently shut in.

Jacalitos: 100% Working Interest and Operator (San Joaquin Basin)

This project is contiguous with the Company's greater Kreyenhagen project and is being re-evaluated as part of the regional Kreyenhagen shale oil play.

CORPORATE ACTIVITIES

Maturity of February 2012 Convertible Debentures

The Company elected on December 31, 2013 to satisfy its obligation to pay the principal and remaining interest to the holders of outstanding debentures issued February 10, 2012 ("February Debentureholders") by issuing 24,529,905 common shares of the Company ("Shares"). The number of shares was calculated dividing the amount of principal and interest due and payable by C\$0.1170 (being 95% of the volume weighted average price of the Shares on the TSX Venture Exchange for the 21 consecutive trading days ended on December 23, 2013).

Share Consolidation

The Company undertook a share consolidation during the December 2013 quarter. The consolidation was done through the conversion of every 25 existing shares into 1 (one) new share. Shareholders approved the consolidation at the Company's AGM held on 29 November 2013.

The consolidation came into effect on 19 December 2013 and saw the Company's share capital reduced to 20,573,699 shares.

New ASX Ticker Code

The Company was issued with a new ASX ticker code "SXS" and began trading under that code on Friday 27 December 2013.

Going Concern

The Company has insufficient cash resources and liquidity at December 31, 2013 to operate as a going concern in the near term and is reliant on the support of significant shareholders, directors and creditors to allow it to continue operations. There is considerable risk that the Company's existing creditors will cease to provide their ongoing support.

The Company's ability to continue as a going concern is dependent upon obtaining necessary funds to meet its current obligations, fund ongoing contractual commitments under its various farm-in and lease agreements, and ultimately achieve profitable operations. While the Company is expending its best efforts, the raising of the necessary funds is not assured.

LEASES

| Project | Oil / Gas | Contract Status | Gross Acres | Solimar Net Acres | Working Interest | Operator |
|------------------------|-------------------------|---------------------------|---------------|-------------------|-------------------|--------------------|
| Kreyenhagen (A) | Heavy Oil and Light Oil | Appraisal and development | 12,552 | 12,294 | 85% to 100.0% (B) | Solimar |
| Tejon Footwall | Light Oil / Gas | Exploration | 6,460 | 265 | 10% | Lani, LLC |
| Bayswater (Zodiac) (C) | Light Oil | Appraisal and exploration | 34,798 (est.) | 286 | 1.1324% | Zodiac Exploration |
| Jacalitos (A) | Light Oil | Exploration | 516 | 516 | 100% | Solimar |
| | | Sub Total | 54,326 | 13,361 | | |

Notes:

- A) The Company during the quarter came to an agreement with its partner who it jointly held some of the leases associated with the trend acreage situated at the Kreyenhagen project and at Jacalitos. Both parties agreed to conclude their partnership in these leases and the jointly held leases were split between each party after negotiation.
- B) The working interest shown for Kreyenhagen reflects at this stage the JV Partner's 15% interest on the Heavy Oil leases under the original joint venture agreement signed in May 2013. As announced in December 2013 a letter of intent was signed that envisages their final working interest earned will be reduced proportionately for that amount under the US\$2m of the Phase I program they have spent.
- C) The Company derives its interest in Bayswater (Zodiac) by virtue of a lease participating in an approximate 100,000 acre pooled area. The acres shown are based on the Company's 1.1324% interest in the pooled area. Not all Gross Acres and Net Acres leased are equal.

Note that all dates for drilling activities discussed in this quarterly report are subject to rig availability, and may change.

Jason Bednar
Director
Solimar Energy Limited

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Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

Reader Advisory: Potential resource estimates and forward-looking statements

This news release contains forward-looking information relating to adding to reserves and resource estimates, planned development and exploration activities on the properties in which the Company has interests, and other statements that are not historical facts. Such forward-looking information is subject to important risks, uncertainties and assumptions. The results or events predicated in this forward-looking information may differ materially from actual results or events. As a result, you are cautioned not to place undue reliance on this forward-looking information.

Forward-looking information is based on certain factors and assumptions regarding, among other things, the impact of increasing competition; the timely receipt of any required regulatory approvals; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner; the ability of the Company to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development of exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates; and the ability of the Company to successfully market its oil and natural gas products, and other similar matters. While the Company considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Forward looking-information is subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what is currently expected. These factors include risks associated with instability of the economic environments in which the Company operates or owns interests, oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources, reliance on key personnel, regulatory risks and delays, including risks relating to the acquisition of necessary licenses and permits, environmental risks and insurance risks.

The estimates of resources in this news release constitute forward-looking information which is subject to certain risks and uncertainties, including those associated with the drilling and completion of future wells, limited available geological data and uncertainties regarding the actual production characteristics of, and recovery efficiencies associated with, the reservoirs, all of which are being assumed. As estimates, there is no guarantee that the estimated reserves or resources will be recovered or produced. Actual reserves and resources may be greater than or less than the estimates provided in this presentation.

You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While the Company may elect to, the Company is under no obligation and does not undertake to update this information at any particular time, except as required by law.

Resource Definitions

This discussion has been excerpted from Sections 5.2 and 5.3 of the Canadian Oil and Gas Evaluation Handbook, Second Edition, September 1, 2007. The following definitions relate to the subdivisions in the SPE-PRMS resources classification framework and use the primary nomenclature and concepts contained in the 2007 SPE-PRMS, with direct excerpts shown in *italics*.

Production is the cumulative quantity of petroleum that has been recovered at a given date.

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on the analysis of drilling, geological, geophysical, and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are further classified according to the level of certainty associated with the estimates and may be subclassified based on development and production status.

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to

one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage. Contingent Resources are further classified in accordance with the level of certainty associated with the estimates and may be subclassified based on project maturity and/or characterized by their economic status.

Undiscovered Petroleum Initially-In-Place (equivalent to undiscovered resources) is that quantity of petroleum that is estimated, on a given date, to be contained in accumulations yet to be discovered. The recoverable portion of undiscovered petroleum initially in place is referred to as “prospective resources”, the remainder as “unrecoverable”.

Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be subclassified based on project maturity.

Classification of Resources

When evaluating resources, in particular, contingent and prospective resources, the following mutually exclusive categories are recommended:

- Low Estimate: This is considered to be a conservative estimate of the quantity that will actually be recovered from the accumulation. If probabilistic methods are used, this term reflects a P90 confidence level.
- Best Estimate: This is considered to be the best estimate of the quantity that will actually be recovered from the accumulation. If probabilistic methods are used, this term is a measure of central tendency of the uncertainty distribution (most likely/mode, P50/median, or arithmetic average/mean).
- High Estimate: This is considered to be an optimistic estimate of the quantity that will actually be recovered from the accumulation. If probabilistic methods are used, this term reflects a P10 confidence level.

Company Gross Contingent Resources are the Company's working interest share of the contingent resources, before deduction of any royalties.

Company Net Contingent Resources are the gross contingent resources of the properties in which the Company has an interest, less all Crown, freehold, and overriding royalties and interests owned by others.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

SOLIMAR ENERGY LTD

ABN

42 112 256 649

Quarter ended ("current quarter")

31 DECEMBER 2013

Consolidated statement of cash flows

| | | Current quarter | Year to date |
|---|--|-----------------|-----------------------|
| | | \$A'000 | (6 months) \$A'000 |
| Cash flows related to operating activities | | | |
| 1.1 | Receipts from sales and related debtors | 25 | 54 |
| 1.2 | Payments for (a) exploration & evaluation | (106) | (130) |
| | (b) Joint Venture exploration | (282) | (1,385) |
| | (c) development | - | 19 |
| | (d) production | (11) | (59) |
| | (e) administration | (303) | (486) |
| 1.3 | Dividends received | - | - |
| 1.4 | Interest and other items of a similar nature received | - | - |
| 1.5 | Interest and other costs of finance paid | (167) | (283) |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Other – (see Note A below) | 156 | 1,387 |
| Net Operating Cash Flows | | (688) | (883) |
| Cash flows related to investing activities | | | |
| 1.8 | Payment for purchases of: (a) prospects | - | - |
| | (b) equity investments | - | - |
| | (c) other fixed assets | - | - |
| 1.9 | Proceeds from sale of: (a) prospects | - | 277 |
| | (b) equity investments | - | - |
| | (c) other fixed assets | - | - |
| 1.10 | Loans to other entities | - | - |
| 1.11 | Loans repaid by other entities | - | - |
| 1.12 | Other (provide details if material) | - | - |
| Net investing cash flows | | - | 277 |
| 1.13 | Total operating and investing cash flows (carried forward) | (688) | (606) |

+ See chapter 19 for defined terms.

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Appendix 5B – December 2013 Quarter
Mining exploration entity quarterly report

| | | | |
|------|--|--------------|--------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (688) | (606) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc. | 441 | 441 |
| 1.15 | Costs of issue and borrowings | - | - |
| 1.16 | Proceeds from borrowings (Debentures) | - | - |
| 1.17 | Repayment of borrowings | - | - |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other (provide details if material) (see Note B) | - | 81 |
| | Net financing cash flows | 441 | 522 |
| | Net increase (decrease) in cash held | (247) | (84) |
| 1.20 | Cash at beginning of quarter/year to date | 309 | 150 |
| 1.21 | Exchange rate adjustments to item 1.20 | (4) | (8) |
| 1.22 | Cash at end of quarter (December 31) (Note C) | 58 | 58 |

NOTES

- A.** The A\$1.387m received year to date are the funds contributed by the Kreyenhagen Joint Venture Partner to the Phase I program.
- B.** These were the funds advanced by the Directors who wished to participate in the non-brokered placement and which were approved by shareholders at the AGM.
- C.** The Company has insufficient cash resources and liquidity at 31 December 2013 to operate as a going concern in the near term and is reliant on the support of significant shareholders, directors and creditors to allow it to continue operations. Please also see the note in the Activity Report.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

| | Current quarter \$A'000 |
|---|----------------------------|
| 1.23 Aggregate amount of payments to the parties included in item 1.2 | 10 |
| 1.24 Aggregate amount of loans to the parties included in item 1.10 | Nil |
| 1.25 Explanation necessary for an understanding of the transactions | |
| Office rent paid to a company associated with a director. | |

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows
- The Company repaid through the issue of shares the convertible debentures (C\$2.8m) that matured on 31 December 2013. Also interest for the December quarter on both convertible debentures was satisfied through the issue of shares.

Director Fees outstanding to four of the directors for the financial year ended 30 June 2013 were paid through the issue of shares in December 2013 and were approved at the AGM.

An amendment was made to the convertible debentures (C\$4.0m) originally maturing 31 December 2014 in August 2013. Information on the amendments made can be found in the Activity Summary for the September 2013 quarter.
- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest
- Nil

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

| | Amount available \$A'000 | Amount used \$A'000 |
|---------------------------------|-----------------------------|------------------------|
| 3.1 Loan facilities | - | - |
| 3.2 Credit standby arrangements | - | - |

Estimated cash outflows for next quarter

| | \$A'000 |
|---|--------------|
| 4.1 Exploration and evaluation (See Note) | 850 |
| 4.2 Development | - |
| 4.3 Production | 20 |
| 4.4 Administration | 260 |
| Total | 1,130 |

Note: The anticipated exploration expenditure which relates predominately to a planned third well would only be undertaken when the necessary funding is provided.

Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | Current quarter \$A'000 | Previous quarter \$A'000 |
|---|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank | 57 | 180 |
| 5.2 Deposits at call | - | - |
| 5.3 Bank overdraft | - | - |
| 5.4 Other (provide details) (see Note below) | 1 | 129 |
| Total: cash at end of quarter (item 1.22) | 58 | 309 |

Note: Other is the balance of funds held in the Kreyenhagen Joint Venture Account that are assigned specifically to costs incurred on the Kreyenhagen work program.

Changes in interests in mining tenements

| | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|---|-------------------------------------|----------------------------------|----------------------------------|----------------------------|
| 6.1 Interests in mining tenements relinquished, reduced or lapsed | Certain Acreage (Kreyenhagen Trend) | | 84% | 0% |
| 6.2 Interests in mining tenements acquired or increased | Certain Acreage (Kreyenhagen Trend) | | 84% | 100% |
| | Jacalitos | | 75% | 100% |

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Appendix 5B – December 2013 Quarter
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

| | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|--|---|-------------------|---|---|
| 7.1 Preference *securities | n/a | | | |
| 7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 *Ordinary securities (See Note Below) | 47,872,443 | 47,872,443 | | |
| 7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | 27,782,691 | | | |
| 7.5 *Convertible debt securities | 80 | | C\$50,000 (C\$4.0m) | 20% p.a Maturity Date 31 Jan 2014 |
| 7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | 56 | | C\$50,000 (C\$2.8m) | 10% p.a Maturity Date 31 Dec 2013 |
| 7.7 Options (description and conversion factor) | 120,000 756,000 128,000 360,000 1,653,317 560,000 244,445 200,000 800,000 480,000 1,333,335 Options convert on 1:1 basis | | Exercise price A\$1.97 A\$4.50 A\$3.1875 C\$3.60 C\$3.60 C\$3.75 C\$3.75 A\$3.1875 C\$3.00 C\$2.50 C\$1.25/C\$2.50 | Expiry date 28 February 2015 1 July 2014 1 July 2014 5 October 2014 5 October 2014 10 February 2014 4 April 2015 4 July 2016 31 July 2015 30 November 2015 27 September 2015 |
| 7.8 Issued during quarter | 203,947 | | C\$1.25/C\$2.50 | 27 September 2015 |
| 7.9 Exercised during quarter | | | | |
| 7.10 Expired during quarter | | | | |
| 7.11 Debentures (totals only) | | | | |
| 7.12 Unsecured notes (totals only) | | | | |

Note: The Company consolidated its shares on 19 December 2013 at the ratio of 1 new for 25 existing. Just prior to consolidation the Company had 514,339,026 shares. All figures in the above table are post-consolidated.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Company Secretary

Date: 31 January 2014

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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